

Inspector General Department of Defense

**Semiannual Report to the Congress
October 1, 2000 - March 31, 2001**



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FOREWORD

It is a privilege to report on the accomplishments of the Office of the Inspector General, Department of Defense, for the period October 1, 2000, through March 31, 2001. This Semiannual Report summarizes significant Department-wide audit and investigative efforts. Oversight projects relating to the intelligence community are discussed in a separate classified annex. Chapter One contains brief updates on what we consider to be the Department's top internal management challenges as identified by our work. Chapter Two includes discussions of important audit and investigative efforts that took place during the period, resulting in significant criminal prosecutions, Defense management improvements, and savings. It is gratifying to be able to report, for example, that Defense audits identified \$2.3 billion in potential monetary benefits and criminal investigations resulted in \$.5 billion of recoveries to the U.S. Government.

We appreciate the confidence shown in our work by both the Department and the Congress, as manifested by frequent requests for reviews of important matters, invitations to participate in hearings, and actions taken on our findings.



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Deputy Inspector General

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CHAPTER ONE – DOD MANAGEMENT CHALLENGES

INTRODUCTION

The DoD audit, inspection, and investigation communities help to identify the need for management improvements, facilitate their implementation, and verify their results. During the reporting period, we continued to focus coverage on high risk management areas in support of DoD strategic management improvement goals.

In December 2000 correspondence with various congressional leaders and in subsequent hearings, we identified the following 10 areas as posing the biggest challenges.

INFORMATION TECHNOLOGY ACQUISITION

Defense has a poor track record for developing or purchasing information systems efficiently. Yet it depends heavily on thousands of systems to support almost all activities and spends over \$20 billion a year for them. Implementation of sound investment management practices remains a work in progress, despite the passing of 5 years since the Clinger-Cohen Act.

Three OIG, DoD, reports during the period described outright program failures involving the Joint Ammunition System, Defense Environmental Security Corporate Information Management Program, and the Defense Security Service Case Control Management System. Other reports addressed improvements needed in the Standard Procurement System, Defense Finance and Accounting Service Corporate Database, and Army Healthcare Enterprise Management System. As shown by those examples, system acquisition problems are occurring across the spectrum of DoD functional areas and organizations.

INFORMATION SYSTEM SECURITY

Defense systems are probed daily and frequently attacked systematically by vandals, curiosity seekers, and other individuals with even more sinister motives. Security is a major challenge to operators and users of all networked information systems. The DoD has concerns about the security of not only its own systems, but also the networks used to support the private sector infrastructures at home and abroad that sustain our military forces.

There has not been a seamless and quick transition from the well focused “Y2K” computer conversion effort to any equally aggressive national information assurance effort. The Government Information Security Reform Act, enacted in November 2000, should be highly useful in forcing an agency like DoD to develop systematic and credible methods

for evaluating their system security posture. Planning to comply with the Act's requirements for the first annual comprehensive assessment report in October 2001 commenced during the period; however, DoD lacks updated policy and will have great difficulty performing comprehensive assessments this year that can be validated by auditors. Nevertheless, important insights will be gained and we plan to address the results as a focus area in the next semiannual report.

All of the information assurance audits during the period indicated problems. Vulnerabilities were detected in pay and medical information systems and software design activities. The most robust segment of the Information Assurance Program is intrusion detection and response, although both the Government Accounting Office and OIG, DoD, reported there was need for continued improvement in that area too. In January 2001, DoD established the Law Enforcement and Counterintelligence Center, which includes a central database for DoD computer intrusion investigations and facilitates coordination across DoD and with the National Infrastructure Protection Center.

OTHER SECURITY CONCERNS

Several other security challenges confront the DoD. The Defense Personnel Security Program has not been able to provide adequate support during the past few years to DoD organizations and contractors that need security clearances. A backlog of several hundred thousand initial investigations, reinvestigations, and adjudications is causing disruption and increased risk in numerous programs. In reports and hearings, we have warned that the DoD corrective action plan needs to be bolstered with additional measures.

Updating the national export control laws and policies remains unfinished business. We continue to recommend passage of a new Export Administration Act. Meanwhile, the annual audits mandated by the National Security Authorization Act for FY 2000 identified a range of interagency and individual agency issues related to export control licensing. In March 2001, we reported that DoD needs to do more to review the Commerce Control List, reduce impediments to timely decisions on applications, and update the list of protected military technologies.

Force protection has become a major mission for the Military Criminal Investigative Organizations, whose law enforcement efforts are closely coordinated with the intelligence, counterintelligence, and security communities. Terrorist threats against U.S. forces, citizens, and interests pose major challenges.

**FINANCIAL
MANAGEMENT**

The audits of year-end financial statements for fiscal year 2000 again indicated the impossibility of compiling reliable financial reports for huge funds and organizations in the absence of modern, integrated information systems. The OIG, DoD, was able to issue a clean opinion for the Military Retirement Fund and there was some progress for relatively small funds. Disclaimers of opinion still were necessary, however, for the consolidated DoD statements and virtually all major funds. In addition, DoD could demonstrate little progress toward providing more useful financial information to managers.

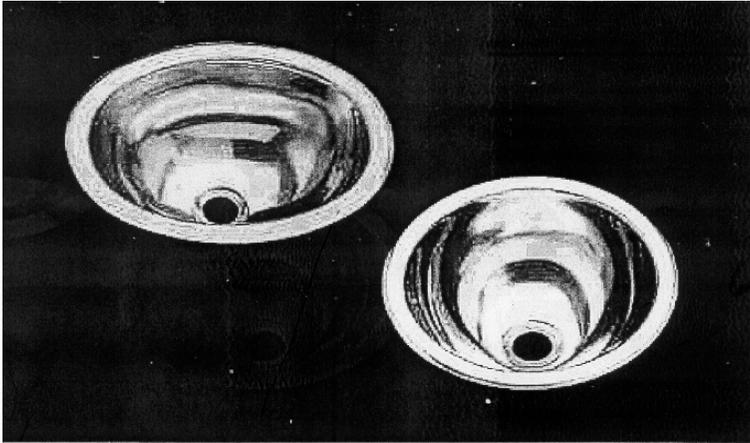
In previous reports and testimony, we repeatedly advised that audit opinions on year-end financial statements are an inadequate metric for evaluating and managing the DoD financial management improvement effort. We also advised that the annual attempts to compile and audit financial statements for an inordinately large number of separate funds and without systems designed for such reporting have been futile and costly. During the reporting period, for example, 61 of the 185 DoD internal audit reports issued primarily addressed financial reporting. This disproportionate coverage detracts from potentially more useful audit support in other financial and non-financial areas. As the new Administration and Congress consider ways to refocus and accelerate DoD financial management improvement efforts, we are anxious to cooperate in developing new approaches.

One recent initiative, which we strongly supported, was the formal adoption of a Y2K-type systems management approach in January 2001 by the Under Secretary of Defense (Comptroller). In concert with further efforts to make the DoD Financial Management Improvement Plan a credible and explicit roadmap for managers, we believe that the discipline of the Y2K-type methodology is long overdue in the financial systems modernization effort.

ACQUISITION

Despite nearly continuous acquisition reform efforts over 20 years, major challenges remain in terms of matching programs to national strategy, allocating resources, reducing acquisition lead time, controlling cost, and ensuring adequate testing, quality, and supportability. In addition, a consensus has emerged since our February 2000 report on the acquisition workforce that the Department faces a compelling human capital problem. For the acquisition corps, this involves the size and skills of the workforce as well as the tools and training provided to them.

Audit reports during the period identified continued problems in purchasing supplies and spare parts due to combinations of procurement



Sinks that wholesale for \$39; the Department paid \$409.

personnel cuts, poorly designed purchasing systems, and inadequate oversight. To restore credibility to the DoD procurement process, the Department needs a more serious effort to avoid overpriced items, such as those we identified during the reporting period. Those included, for example, \$409 sinks that should have cost \$39, \$2.10 screws worth \$.48, and \$.25 dust plugs worth \$.03. Although these unit prices may seem too low to warrant concern, DoD purchases tens of millions of such items annually.

Other recent audits indicated problems on the other end of the acquisition spectrum from spare parts and supplies. The DoD had 1,223 system acquisition programs in place, with an estimated cost of \$1.4 trillion. Many of those programs were inadequately funded, which increases the risk of inadequate developmental effort, inefficient production rates, and insufficient emphasis on technical manuals, initial spares, and support equipment.

The DoD is probably the largest purchaser of services in the world, spending well over \$50 billion annually for support ranging from consultants to depot maintenance. Last year, we reported major deficiencies in contracting for services by the Military Departments, so that excessive costs were incurred and contract terms were often not enforced. During the reporting period, we reported similarly widespread problems at a major Defense agency. In January 2001, DoD set up a group to address ways to improve, but the volume and diversity of contracting in this area make it a particularly difficult challenge. We plan to audit services contracting at additional Defense agencies in fiscal years 2001 and 2002.

A root cause of inefficiency in Defense acquisition, regardless of the items or services being purchased, is the mismatch between workload and staffing at most DoD buying organizations. (See Human Capital below.) In addition, we believe that management controls and oversight are weak in many areas, despite the often repeated assertion that the DoD acquisition program is inefficient because of excessive oversight. Perceptions that program management offices and contractors are overrun by DoD auditors ignore the reality that only small percentages of DoD

programs, contracts, and transactions are ever audited. In addition, the few hundred procurement fraud investigations conducted each year need to be placed in the context of over 29,000 DoD prime contractors and 15 million procurement actions taken annually, resulting in tens of millions of contract payments.

HEALTH CARE

The Military Health System faces four major challenges: quality and safety, cost containment, data integrity, and transitioning to managed care.

The quality and safety of health care provided to our active military personnel, their families, and military retirees is by far the most critical challenge facing the Military Health System. During the reporting period, the OIG, DoD, reported on deficiencies in the frozen blood program that was established to pre-position blood products during the initial stages of a contingency operation or war until liquid products can be supplied from the continental United States. We reported significant unresolved issues between the DoD and the Food and Drug Administration.

Cost containment within the Military Health System is challenged by the continued lack of good cost information combined with significant levels of health care fraud. During the period, followup on OIG, DoD, reports indicated that cooperative efforts to procure pharmaceutical procurements by DoD and the Department of Veterans Affairs have saved \$472 million. Service audits indicated opportunities for more effective use of cost management systems and modern training methods.



Data integrity in management information systems has been a persistent problem that hampers the health care program. The lack of complete and accurate data has resulted in an inability to clearly identify health care costs, identify unit and individual readiness for deployment, and coordinate direct health care with purchased health care.

Transitioning to managed care is a critical element in peacetime health care delivery. TRICARE managed care contracts are complex instruments that require considerable audit assistance. For 2000, the seven TRICARE management contracts were valued at \$3.5 billion. The Defense Contract Audit Agency significantly expanded its audit coverage of TRICARE contracts, which will help reduce risk.

Investigating health care fraud within the DoD Military Health System, especially TRICARE, is a top priority for the Defense Criminal Investigative Service, as evidenced by the millions of dollars in health

care settlements and sentences handed down during this reporting period. (See Chapter Two.)

SUPPLY INVENTORY MANAGEMENT

Supply management to support U.S. military forces, which are located around the world and use thousands of different systems and millions of different types of other equipment, spare parts, fuel, apparel, food items, pharmaceuticals and other supplies, may be the most difficult logistics challenge in the world. The Department spends more than \$80 billion annually on supply inventory management. Despite the clear need to modernize DoD supply operations, it should be noted that U.S. military logistics performance has been excellent in demanding situations such as the Gulf War and the numerous recent deployments to comparatively remote areas of the world.

Every facet of supply management involves challenges, and it is critically important to recognize that weapon systems and other equipment must be designed, selected, and procured with logistics support as a paramount concern. The use of standardized parts, commercial items, non-hazardous materials, and easy-to-maintain components will considerably ease the supply support problem for each system or piece of equipment. Conversely, inattention to such factors during the acquisition will increase the risk of higher costs and logistical failures. The logistics community relies heavily on program managers and operators to help forecast supply requirements which, historically, has been very difficult. The Department has been justifiably criticized for accumulating excessive supply inventories; however, supply shortfalls are also as least as great a concern because of their impact on readiness. Current logistics reform initiatives are principally focused on introducing private sector logistics support practices, which in turn are based on applying web-based technology. The DoD has initiated a myriad of logistics improvement initiatives, most of which are still in early stages. Although these are positive signs, numerous recent audits indicated continuing valid concerns about all phases of supply support including requirements determination, procurement, distribution, and disposal.

OTHER INFRASTRUCTURE ISSUES

Despite numerous management initiatives to reduce support costs so that more funds could be applied to recapitalizing and ensuring the readiness of military forces, more can and should be done. The operations and management funding levels today actually exceed the 1980's levels. The number of bases and other installations remains excessive, justifying at least one more round of base closures and realignments. Organizations throughout the Department need to continue reengineering their business processes and striving for greater administrative efficiency.

Cutting support costs can easily become counterproductive if the quality of support services and facilities is degraded. In addition, there are numerous genuine requirements in the support area that will be expensive to address. For example, the average age of structures on military installations is 41 years and wholesale recapitalization is needed. In the category of family housing alone, clearly one-third of the 285,000 units will require replacement in the next several years. The backlog of real property maintenance is \$27.2 billion. Three areas hold the most promise for reducing installation level costs: base closures, public/private competition for activities like base maintenance, and measures to avoid hazardous material handling and clean-up costs through better up-front planning. Unfortunately, progress in all three areas is difficult because of controversy about the validity of data used by decision-makers or their objectivity. Finally, DoD has one of the largest environmental restoration programs in the world, and this area is particularly challenging in terms of cost containment and compliance with continually evolving laws and regulations.

READINESS

Concern about the readiness of U.S. military forces was a principal issue in congressional hearings and was addressed during the Presidential election campaign. There is a broad consensus that readiness shortfalls exist, although the extent of impairment to mission capability is more contentious. There are concerns relating to recruiting, retention, and morale; disproportionately numerous deployments for some units; unanticipated high operating tempo; and equipment availability problems. The DoD and Congress have made budget adjustments, and military entitlements have been expanded. The Department's readiness posture ultimately depends, however, on the effectiveness of hundreds of support programs, which range from training to supply management.

Audit reports during the period addressed slippage in the plan to have 10 National Guard Weapons of Mass Destruction Civil Support Teams mission ready by January 2000; inaccurate reporting of the number of Army tank training miles driven; medical readiness issues; problems in maintaining reliable mobilization and deployment preparedness data; and backlogged supply requests.

HUMAN CAPITAL

Like most Government organizations, DoD faces a range of serious personnel management issues related to an aging workforce. Moreover, the deep cuts in both the military force structure and the civilian workforce after the end of the Cold War were not accompanied by proportionate reductions in the number of military force deployments or in civilian workload. On the contrary, military operating tempo has been

very high, and there are indications of morale problems among both military and civilian personnel. Among the negative effects of downsizing are increased retention problems because of slow promotions and overworked staffs, recruiting problems, and skills imbalances. A series of audit reports has demonstrated the problems encountered across a wide range of occupational specialties, programs, and organizations. Those results demonstrate the need for decisions on any additional workforce sizing to be underpinned by careful analysis of workload and realistic productivity projections.

For example, one OIG, DoD, audit found that a 27 percent reduction in acquisition personnel over 2 years at a Defense supply center resulted in an increase in administrative lead-time for buyers to acquire parts and supplies, an increase in backorders, and an increase in backlogged purchase requests. The following chart demonstrates the deterioration of customer service at that center.

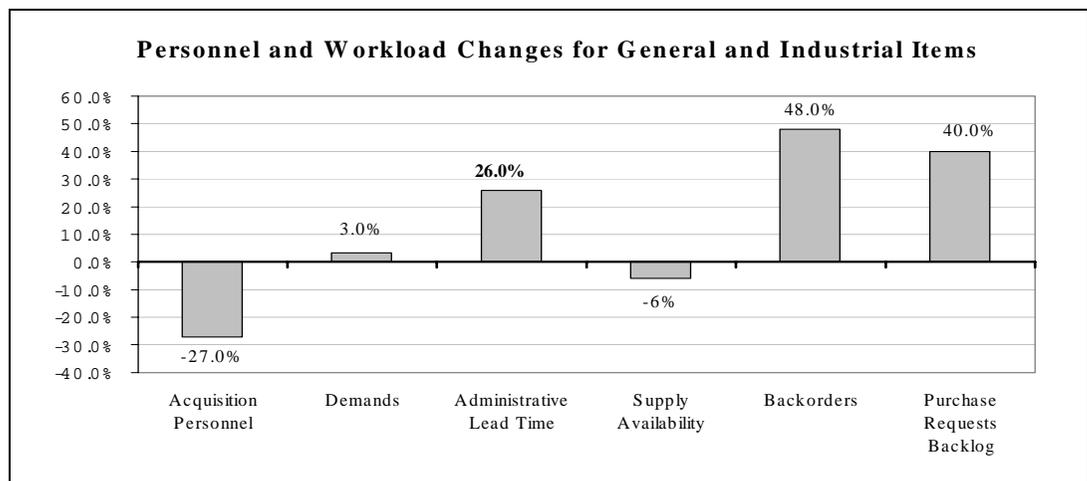


Figure 1

A properly sized, well trained, and highly motivated workforce is the best defense against fraud, waste, and mismanagement. The effectiveness of the workforce, both civilian and military, could be greatly enhanced by better human capital planning. The DoD acquisition community has now become a Government leader in terms of seeking and applying expanded authority for more agile and responsive personnel management practices. The rest of the Department faces similar problems and would benefit from having greater flexibility too.

CHAPTER TWO - SIGNIFICANT ACTIVITIES

INTRODUCTION

This chapter summarizes the significant activities of the Office of the Inspector General (OIG) components and their work with other members of the DoD oversight community.

CRIMINAL INVESTIGATIONS

The four Defense Criminal Investigative Organizations continue to combat crime affecting the DoD. The Defense Criminal Investigative Service of the OIG focuses primarily on procurement fraud, health care fraud, and computer crimes. The three Military Department criminal investigative organizations, the U.S. Army Criminal Investigation Command, the Naval Criminal Investigative Service, and the Air Force Office of Special Investigations, also investigate procurement fraud and computer crime, but focus the majority of their resources on crimes against persons and property affecting their respective Military Departments, as well as force protection. The Air Force Office of Special Investigations and Naval Criminal Investigative Service also conduct counterintelligence investigations and operations.

Figures 2 and 3 (page 10) display the statistical results achieved by the four investigative organizations during this period.

The following are examples of some of the more significant fraud cases occurring during this semiannual period. In many instances, the Defense Contract Audit Agency played a critical role in supplying needed audit support.

Product Substitution

Counterfeit material and other forms of unauthorized substitution of products into DoD inventories continue to be our highest priority for deterrence, investigation, and prosecution. The following are examples of product substitution cases.

Chickasaw Electrical Corporation, Dallas, Texas, and its president pled guilty to mail fraud and conspiring to commit money laundering. In addition to other offenses, unsuitable wire was substituted for use in the Ellsworth Air Force Base electrical distribution system.

San Juan International, Incorporated, Trenton, New Jersey, a chemical manufacturing company, knowingly provided faulty hydraulic fluid to the Navy for use in the MK7 model 2 and 3 arresting gear drive systems. The arresting gear systems are key mechanisms for the safe landing of aircraft aboard Navy carriers. The hydraulic fluid is a critical component of the

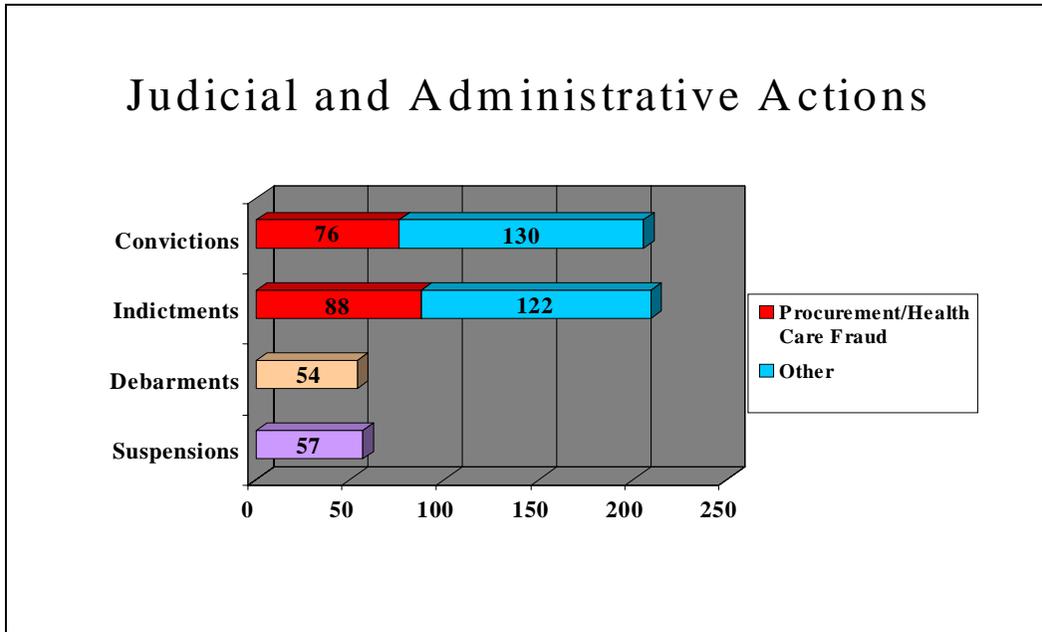


Figure 2

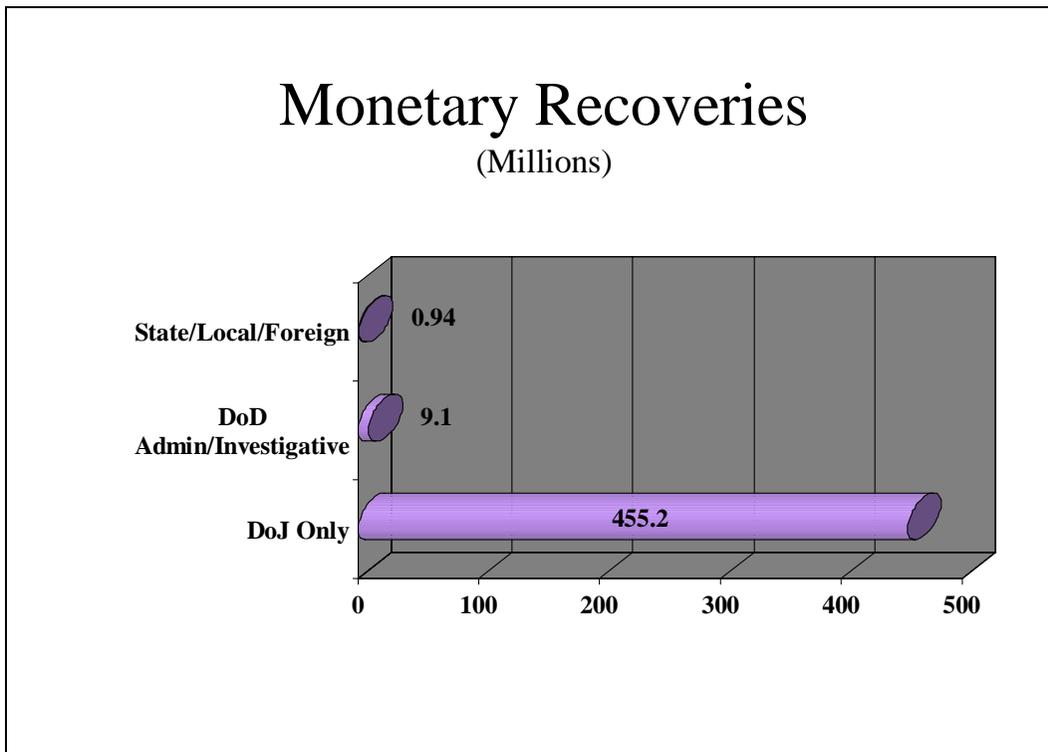


Figure 3



An F/A-18 Hornet comes in for an arrested landing on the flight deck of the USS Kitty Hawk

arresting gear system and plays a crucial role in slowing down and ultimately stopping incoming aircraft.

Two vice presidents of Blue Jaunte Company, Incorporated, formerly Plummer Precision Optics Company (Plummer), pled guilty to one count each of conspiring to make false statements. Plummer manufactured and shipped various optic components used in the gunner's primary sighting system of the Abrams M1A1 tank and the Bradley Fighting Vehicle. In addition, Plummer lenses were critical components used in the Army's Laser Village Program. For approximately 10 years, the defendants conspired to submit false quality inspection reports that resulted in the shipment of nonconforming and defective parts.

A combined \$1.23 million civil settlement was reached with several companies for allegedly submitting false claims to the Army. O'Gara Hess & Eisenhardt Armoring Company (O'Gara) allegedly provided nonconforming armored vehicle shells to the Army under a \$186 million contract to armor-plate High Mobility Multipurpose Wheeled Vehicles. Several of O'Gara's suppliers allegedly did not produce parts in accordance with the design requirements. Some of the parts produced by suppliers were not welded by certified welders and did not conform to requirements. Improper welding degrades the strength of the armor. O'Gara also allegedly did not exercise adequate oversight of its subcontractors, including performing the required audits and inspections.

Daniel Massey and Rhimco Industries (Rhimco), a Texas-based company that manufactures electrical connectors, supplied untested critical application aircraft parts to the DoD and commercial customers. Between 1992 and 1996, Rhimco electrical connectors provided for testing yielded significant failures. In response to DoD inquiries, Massey falsely represented that Rhimco parts were not subject to various testing procedures.

Medical Fraud

This was a hugely successful 6-month period in the effort to combat fraud against TRICARE and other Government health care programs. The following cases were jointly investigated by multiple Federal law enforcement agencies and the recovered amounts will be apportioned among the agencies whose programs were victimized, including DoD.

Lifescan, Incorporated (Lifescan), a subsidiary of Johnson & Johnson, pled guilty to three misdemeanor charges and was sentenced to 3 years



Lifescan's SureStep Kit

probation, a criminal fine of \$29.4 million, and civil penalties, damages, attorneys' fees, and restitution of \$30.6 million. The misdemeanor charges dealt with submitting false and misleading reports and failing to furnish appropriate notifications to the Food and Drug Administration (FDA), and the introduction and delivering of an adulterated and misbranded medical device into interstate commerce. Lifescan's SureStep brand blood glucose monitoring system was manufactured and distributed between May 1996 and late 1997. The device had two defects that caused SureStep meters to display problematic readings. Lifescan admitted failing to describe these defects in its submissions for FDA clearance to market the SureStep family of blood glucose monitors, in addition to not notifying its customers of the defects.

The Regents of the University of California entered into a \$22.5 million settlement agreement with the Government. This follows a 5-year investigation into allegations that faculty physicians at three medical schools and medical centers improperly billed TRICARE and Medicare. The questionable billing pertained to services purportedly performed personally by faculty physicians, or under their direct supervision, when those services were actually performed by residents acting alone with little or no supervision. Under the Medicare and TRICARE programs, the Government already pays for a substantial portion of the residents' training and salaries. Their services cannot be billed to the Medicare or TRICARE programs on a fee-for-service basis.

Quest Diagnostics, Incorporated, agreed to pay \$13.1 million to settle claims that it improperly billed Government health care programs for services that were medically unnecessary. Quest Diagnostics, Incorporated, was formerly known as Nichols Institute Laboratories (Nichols). From January 1989 to December 1995, Nichols submitted claims for payment to Medicare, Medicaid, TRICARE, and the Federal Employees Health Benefits Program for unnecessary laboratory tests such as chemistry profiles for HDL cholesterol, LDL cholesterol, iron, hepatic, and ferritin.



The Healthcare Company, formerly known as Columbia/HCA (HCA), and affiliated companies, the largest for profit hospital chain in the United States, agreed to plead guilty to one or more counts each of a variety of criminal conduct, and will pay over \$840 million in criminal fines and civil penalties. The criminal conduct included false statements, conspiracy, using false documents and writings, and paying

and receiving kickbacks. In addition to the civil settlement, two HCA subsidiaries pled guilty to numerous charges and were assessed a total of \$95.3 million in criminal fines and special assessment fees. Many of the civil issues resolved in the global settlement agreement arose from a lawsuit filed under the *qui tam* provision of the False Claims Act. Upon final court approval of the civil agreement, HCA will pay to resolve a series of allegations involving outpatient laboratory billing, diagnosis-related groups upcoding, home health community education, home health billing, and home health management fees.

The owner of Advanced Health Clinic, Mesa, Arizona, was sentenced to 105 months incarceration, 5 years probation, restitution of \$0.8 million, and a \$4,700 special assessment fee. A jury found him guilty on 30 counts of mail fraud, 8 counts of false claims, 6 counts of promotional money laundering, 2 counts of false use of a Social Security Number, and 1 count of false statements. Using his wife's name and two alias names, he submitted false claims to the TRICARE program and private insurers for reimbursement of services he purportedly administered. In addition, he falsely represented himself to be a medical doctor.

Financial Crimes

Offenses considered to be Financial Crimes generally involve contract mischarging or defrauding or abusing pay systems. The following examples are some of the more significant financial fraud cases occurring during this semiannual period.

A \$4.5 million civil settlement agreement was reached between Research and Development Laboratories, Incorporated (RDL), Culver City, California, and the Government. The settlement resulted from an investigation prompted by a *qui tam* suit filed by a former RDL employee alleging that RDL overbilled the Air Force over a 4-year period on a contract to place university professors and students in Air Force laboratories to conduct research in the physical and biological sciences.

The General Services Administration awarded a contract to Gateway 2000, Incorporated, in 1994 for various computer systems. The United States alleges that Gateway failed to comply with a contractually required repricing provision, resulting in the sale of computers to various agencies, including the DoD, at excessive prices. Gateway agreed to pay a \$9 million civil settlement to the United States to resolve these issues. Gateway also voluntarily reorganized its Government Business Unit to ensure compliance on all present or future Government contracts.

Electromechanical Systems, Incorporated (EMS), Largo, Florida, pled guilty to obstructing a Federal audit. EMS employees falsified basic labor costs related to the repair and refurbishment of Navy SPS-49 radar pedestals and corporate officials concealed the mischarging.

Southern Emblem Company (SEC), Mount Airy, North Carolina, agreed to pay the Government a \$300,000 civil settlement to resolve allegations that SEC failed to pay the appropriate U.S. Customs taxes on merchandise entering the United States. An investigation found evidence that SEC misled Government and commercial customers for years into believing embroidered cloth patches and emblems purchased from SEC were manufactured in the United States when they were produced overseas.

A \$450,000 civil settlement agreement was reached between Lockheed Martin Michoud Space Systems, New Orleans, Louisiana, and the U.S. Government. An investigation revealed evidence that the firm failed to fully report its use of Government-furnished equipment and facilities for commercial production of thermal protective products from 1988 to the present.



A U.S. Air Force B-2 Spirit stealth bomber refuels from a KC-135 Stratotanker.

A *qui tam* suit filed against Northrop Grumman Corporation (Northrop), Palmdale, California, alleged that Northrop intentionally overestimated the cost to purchase B-2 bomber instruction and repair manuals from subcontractors. As a result, Northrop defectively priced the manuals by failing to use current pricing data and withheld data that showed its cost estimates were inflated. Northrop agreed to pay a \$1.4 million civil settlement to the Government to resolve the allegations. The relator will receive 19 percent of the Government's settlement.

Tri-Ad Constructors (Tri-Ad) submitted a claim for overhead costs and other expenses on a contract to repair water lines on Travis Air Force Base, California. When the claim was denied, the firm submitted an Equitable Adjustment for Cost Claim under the Contract Disputes Act of 1978, seeking \$2.2 million. The Government denied this claim, and Tri-Ad sued in the U.S. Court of Federal Claims. The trial court found that Tri-Ad violated the "Forfeiture of Fraudulent Claims" statute and ordered the entire claim forfeited. Tri-Ad was ordered to pay \$1.5 million in damages and a \$10,000 civil penalty.

Bribery and Kickbacks

Since the passing of the Anti-Kickback Act of 1986, the number of subcontractor kickback investigations has increased dramatically. The use of informants and undercover operations has been particularly successful in this area, especially in an undercover investigation of corruption within the maritime industry.

The Navy contracts with ship management companies for the repair, maintenance and operation of civilian-manned support ships. Bay Ship Management, Incorporated (BSM), Englewood Cliffs, New Jersey, had multiple contracts valued in excess of \$200 million with the Military Sealift Command (MSC) to provide management, personnel, operational and technical support to operate and maintain eight MSC ships. The undercover investigation found that several companies and their officials routinely paid kickbacks of money, goods, or services to BSM or port officials in exchange for shipyard contracts.



Following their guilty pleas to paying or receiving kickbacks and related charges, two companies, Boston Ship Repair and Southern Sandblasting and Coatings, and five individuals, were sentenced to pay more than

\$1.29 million in restitution, \$775,000 in fines, and a \$250,000 civil settlement. Each individual will serve 12 or more months in prison, followed by probation.

Antitrust and Bid Rigging

Price fixing, bid rigging and other typical antitrust violations continue to increase DoD procurement costs. The following is an example of an antitrust case settled during this semiannual period.

A \$2 million settlement agreement was reached between the U.S. Government and six freight forwarding companies of Seattle, Washington. The six freight forwarders also agreed to permanently terminate participation in the DoD program administered by the Military Traffic Management Command, any other programs administered by DoD, and/or by any other agency of the United States. The companies allegedly made misrepresentations to the Military Traffic Management Command about their common ownership by Pan American Products, Incorporated, Seattle, Washington. Common control is prohibited to prevent price manipulation and to prevent affiliated carriers and forwarders from gaining an unfair competitive advantage over independent carriers and forwarders. The investigation was initiated as a result of a *qui tam* lawsuit.

Computer Crimes

The potential for criminal activity in the cyber environment continues to grow as DoD increases reliance on electronic commerce and processes. The following are case examples of computer crime cases.

Investigators tracked down an originator of hacker attacks that appeared to come from the Defense Logistics Agency Headquarters (DLA HQ) computer system. Without damaging the actual DLA HQ system, hackers used the DLA HQ firewall computer as a proxy service, which masked their Internet addresses, to access computers within and outside of the United States. The most serious known compromise was the crash of an online service computer and website that required the full restoration of the computer system. The hacker was arrested and pled guilty to interfering with a DoD computer system, computer fraud, and intercepting electronic communications.

Two teenagers were arrested and pled guilty to seven counts of illegal computer activity. Information on the juveniles surfaced during a California county sheriff investigation of the theft of Pacific Bell telephone accounts and passwords. DoD investigators found that the teens were members of a well-known computer hacker group responsible for unauthorized penetrations of DoD computers.



DoD computer crime “watchdogs” detected two major compromises of the Defense Information Systems Agency computer system. The intruder copied and transferred a highly sensitive password file and gained unauthorized access to the system. The Defense Information Systems Agency procurement system was shut down for 4 days following discovery of the intrusion to clean and secure the system and to remove files placed by the intruder that allowed unauthorized access. Investigators identified the intruder, a teenager in Texas, who confessed to the unauthorized access. The court certified him as an adult and sentenced him to probation, public service, and restitution.

Technology Transfer

Technology transfer cases involve the illegal export or acquisition of sensitive DoD technologies, weapons systems, parts and intellectual properties. The following is an example of a technology transfer case.

A California couple was convicted on charges related to the attempted illegal export of Defense articles on the U.S. Munitions List to the People’s Republic of China. The couple purchased surplus/excess military materials from various Defense Reutilization Marketing Offices on behalf

of their company. The items, including missile, aircraft, radar, and tank parts, were exported to China without license or written authorization from the U.S. State Department. Funds to purchase and export the material were received via wire transfer from multiple locations, including Taiwan, Indonesia, Hong Kong, and Singapore.

Theft

Theft of DoD material and munitions from the supply system and at the base level has a direct effect on the readiness of the DoD. The following is an example of a significant theft case.

Over a million rounds of small arms ammunition and other material were stolen from Navy installations in Virginia. Two individuals pled guilty to stealing or receiving those items. One individual was sentenced to 78 months in prison and ordered to pay \$173,000 in restitution. The second individual was sentenced to 24 months in prison and ordered to pay restitution of \$238,000.

Environmental Crimes

The Defense Criminal Investigative Organizations continue to pursue allegations of fraud and abuse against the DoD environmental programs as high priorities. The investigations in this area address matters such as the removal, transport, and disposal of hazardous material from DoD installations or contractors.

Special Devices, Incorporated (Special Devices), pled guilty in California to three counts of violating Federal laws concerning treatment of hazardous waste without a permit. The investigation resulted from a *qui tam* suit filed by a former company employee. Special Devices improperly transported and disposed of propellants and other hazardous materials without the proper environmental safeguards and permits. The company openly burned sensitive materials, such as C-4 explosives, lead azide, lead styphnate, hydrazine, and other material.

D&J Enterprises, Incorporated (D&J), and its owners were convicted of violations of environmental laws and the submission of false claims. The investigation determined that D&J was not qualified to perform freon/chlorofluorocarbon abatement. The company actually cut lines and allowed these substances to bleed into the air while performing contracted work.

ADMINISTRATIVE INVESTIGATIONS

The OIG, DoD, Departmental Inquiries Office conducts investigations and also performs oversight of investigations conducted by the Military Departments. Those investigations pertain to:

- Allegations that military members were referred for mental health evaluations without being afforded the rights prescribed in the DoD Directive and Instruction pertaining to mental health evaluations of members of the armed forces.
- Allegations of reprisal against military members, Defense contractor employees and nonappropriated fund employees.
- Noncriminal allegations against senior military and civilian officials

Referrals for Mental Health Evaluations

Thirteen cases closed during the reporting period contained allegations of improper referrals for mental health evaluations. We did not substantiate any mental health referrals that were used to reprise against Service members for whistleblowing. However, we concluded that in 7 of the 13 cases, commanders failed to follow the proper procedures for referring a Service member for a mental health evaluation under DoD Directive 6490.1, “Mental Health Evaluations of Members of the Armed Forces.” We are working with the Department to find ways to improve the knowledgeability of commanders regarding the Directive’s requirements.

Whistleblower Reprisal Activity

During the reporting period, the Special Inquiries Directorate and the Military Department Inspectors General received 232 complaints of whistleblower reprisal. We closed 229 cases during this period. Of the 229 closed, 178 were closed after preliminary analysis determined further investigation was not warranted, and 51 were closed after full investigation. Of the 51 cases closed after full investigation, 5 (10 percent) contained one or more substantiated allegations of whistleblower reprisal.

Examples of Substantiated Whistleblower Reprisal Cases

A Navy petty officer was reassigned to a different shift, causing his loss of supervisory duties, in reprisal for reporting an allegation of time and attendance fraud by his immediate supervisor to the National Security Agency Inspector General. In addition, the responsible management official violated the provision of 10 U.S.C. 1034 that prohibits restricting members from making protected communications to an Inspector General. Corrective action is pending.

An Air Force enlisted member at Eglin Air Force Base, Florida, received an unfavorable enlisted performance report from her supervisor in reprisal for making allegations of racial discrimination and harassment to the Military Equal Opportunity Office and her congressman. The supervisor responsible for the reprisal action received a formal letter of reprimand.

A Navy senior enlisted member was reprimanded against by his commander and the executive officer because he made a hotline complaint regarding the commander's decision in a mast case. The member received a lowered fitness report and was denied an end of tour award. The commander was counseled regarding the reprisal action. In addition, the Commander, Naval Air Force, U.S. Pacific Fleet, issued a widely-distributed memorandum on whistleblower protections, and the Commander in Chief, U.S. Pacific Fleet, has undertaken a number of training initiatives to prevent recurrence of whistleblower reprisal.

An Army Active Guard Reserve chief warrant officer was threatened with a lowered officer evaluation report when he requested a commander's inquiry into a "relief for cause" noncommissioned officer evaluation report (NCOER) rendered to an enlisted member. When the commander's inquiry resulted in overturning the enlisted member's relief for cause NCOER, the warrant officer received a lowered evaluation himself in reprisal. Corrective action is pending.

Senior Official Inquiries

Figures 4 and 5 (page 20) show results of activity on senior official cases. On March 31, 2001, there were 222 ongoing investigations into senior official misconduct throughout the Department, a moderate reduction from October 1, 2000, when we reported 253 open investigations. Over the past 6 months, we closed 213 senior official cases, of which 38 (18 percent) contained substantiated allegations.

Examples of Cases Involving Senior Officials

In response to an incident that attracted significant media interest, we investigated allegations that a senior Navy official attempted to cover up and suppress allegations of improper conduct on the part of naval officers attending the 44th annual "Tailhook" convention held in Nevada in August 2000. We did not substantiate allegations of a cover-up. Rather, we determined that efforts taken by the senior official to discuss the complaint of improper conduct with affected individuals were reasonable. However, we determined that the senior official failed to exercise sound judgment by not reporting the incident and by not taking immediate action to have the allegations thoroughly investigated.

In another investigation, we concluded that a senior Army official violated DoD ethics regulations by using Government-owned laptop computers, which were in his custody, for personal benefit. Although DoD ethics regulations permit limited personal use of Government equipment under certain conditions, we found that the personal use of the laptops in this case was extensive and did not comply with other pertinent

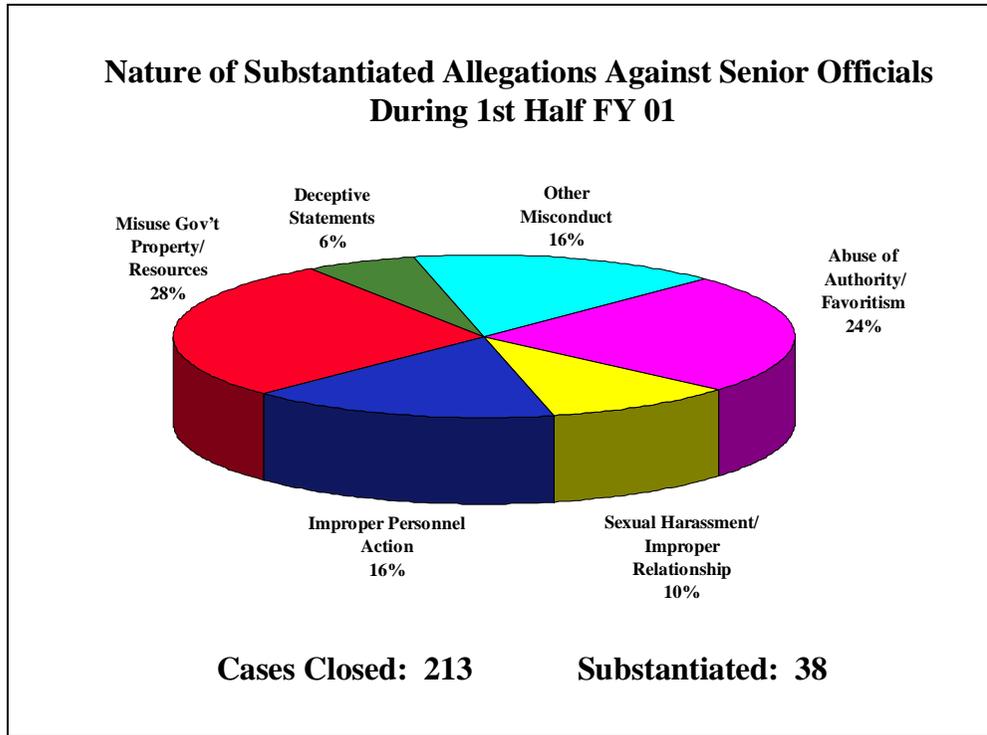


Figure 4

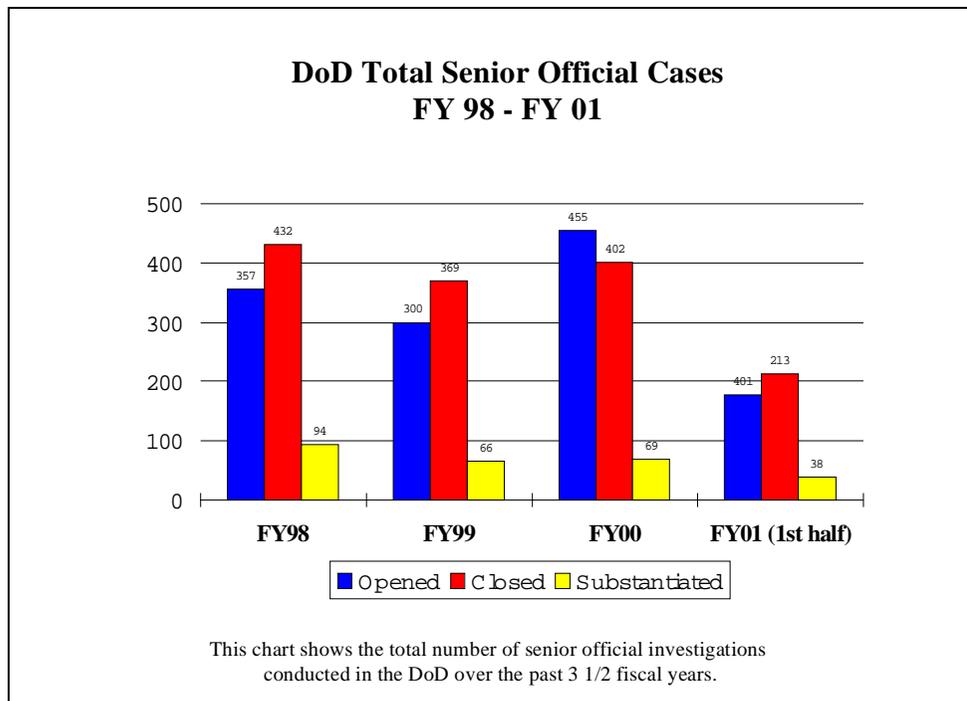


Figure 5

criteria. The results of the investigation were provided to cognizant management officials for consideration of corrective action.

Another investigation substantiated allegations that a senior Air Force official failed to take appropriate action after receiving a complaint of sexual harassment from a subordinate officer. Although the senior official conducted an inquiry into the matter, we concluded that the inquiry was inadequate and, because of that, follow-on corrective action was insufficient. Further, we determined that the senior official provided inaccurate and misleading testimony during our investigation. The results of our investigation were provided to management officials for consideration of corrective action.

CRIMINAL INVESTIGATIVE POLICY AND OVERSIGHT

The Office of Criminal Investigative Policy and Oversight (CIPO) issued “Evaluation of Defense Criminal Investigative Organizations’ Policies and Procedures for Investigating Allegations of Agent Misconduct.” The evaluation determined that Defense Criminal Investigative Organization policies and procedures to examine incidents of agent misconduct are effective and consistent with benchmarked criteria. As a whole, actions based on these investigations were equitable, and subjects of the investigations were provided due process commensurate with the proposed remedial action.

On March 2, 2001, the Deputy Inspector General established interim policy requiring each Defense Criminal Investigative Organization to establish processes whereby individuals or entities who have been titled in criminal investigative reports or indexed in the Defense Clearance and Investigations Index (DCII) may obtain a review of such decisions. Formal coordination of the revised DoD Instruction 5505.7 is pending. In process is the second phase of an Office of Criminal Investigative Policy and Oversight project designed to assess compliance with the Directive by criminal investigators outside of the traditional DoD investigative community with respect to entering data in DCII as required, and whether criminal investigative data contained in the DCII database is being misused.

Voluntary Disclosure Program

The Voluntary Disclosure Program encourages contractors to disclose potential criminal or civil fraud that may affect their contractual relationship with the DoD or the contractor’s responsibility under the Federal Acquisition Regulation. During this reporting period, the Government recovered \$553,000 under this Program. In addition, a voluntary disclosure resulted in contract adjustments totaling \$440,063. In

this case, a defense subcontractor reported that a lower-tier subcontractor submitted alleged false claims.

AUDITING

The OIG, DoD, and Military Department central audit organizations issued 186 reports during the reporting period, identifying nearly \$1.78 billion in quantifiable monetary benefits and assisting the Department's efforts to address the high risk areas discussed in Chapter One. Appendix A lists internal audit reports by major subject area. Appendices B and C list OIG, DoD, reports with potential monetary benefits and statistically summarize internal audit followup activity, respectively.

The Defense Contract Audit Agency issued 17,549 contract audit reports in response to the needs of its customers, DoD contracting officers. Those reports questioned \$485.8 million in costs, as summarized in Appendix D.

Significant Open Audit Recommendations

The DoD has a tradition of recognizing the importance of audit as a management tool. Although individual reports and findings can be highly contentious, the Department's resolution procedures for both internal and contract audits have generally worked well for over 20 years. Many agreed-upon corrective actions are complicated and cannot be completed quickly, so large numbers of agreed-upon but incomplete actions are being tracked in DoD audit followup systems. Although managers generally implement agreed-upon recommendations within reasonable time frames, the slow pace of some actions merits concern. DoD policy making is a chronically slow process in general, and implementing agreed-upon changes to directives and regulations often takes several years. Likewise, developing new automated systems or making corrective modifications to systems often are frustratingly long processes. To be a more agile and effective organization, the Department needs to find ways to be less bureaucratic and more efficient in both of those areas.

Among the open actions being tracked for audit followup are the following:

- 1994 and 1995 recommendations for periodic testing and better preventative maintenance of chemical protective masks—a followup audit is planned for fiscal year 2002 to verify that adequate actions have been taken.
- 1996 recommendations for the Defense Finance and Accounting Service to reduce the backlog of contract financial records needing reconciliation and correction—although the backlog has

been reduced from about 15,000 to 10,000, this remains unacceptably high.

- 1997 recommendations to address the removal of hazardous munitions residue from training and test ranges.
- 1998 recommendations to address problems created by conflicting requirements for use of the radio frequency spectrum—although DoD has vigorously addressed many aspects of this serious problem, specific system acquisition guidance is still pending.
- 1999 recommendations to apply the Y2K systems compliance process to the financial systems problems as discussed in Chapter One—the Department issued procedures in January 2001, but follow through is uncertain.

OIG, DoD, Testimony

The full texts of the written testimony for these hearings are available at www.dodig.osd.mil.

On February 12, 2001, the Deputy Inspector General testified before the Senate Budget Committee in a hearing on "The National Defense Budget in the New Century." His testimony discussed the Office of Inspector General's assessment of the major management challenges confronting the Department of Defense. Those areas were: (1) information technology management, especially acquiring new systems; (2) information system security; (3) other security concerns; (4) financial management; (5) acquisition of weapons, supplies, and services; (6) peacetime health care; (7) supply inventory management; (8) other infrastructure issues; (9) readiness; and (10) human capital management.

The Deputy Inspector General testified on March 2, 2001, before the House Government Reform Subcommittee on National Security, Veterans Affairs and International Relations on problems facing the Department of Defense Personnel Security Program. His testimony discussed recent audits and evaluations of the Defense Security Service by the OIG, DoD. The Department has had mixed success in its efforts to reduce the backlog of pending security clearance investigations, reinvestigations, and adjudications. The Deputy Inspector General noted that cuts in staffing have not been matched by proportional reductions in workload. Efforts to increase productivity have been hampered by the lack of adequate information systems to track cases. The Defense Security Service goal of

eliminating the backlog of security investigations by September 30, 2002, remains at risk.

On March 15, 2001, the Deputy Inspector General testified on the major management challenges facing the Department of Defense at a hearing before the House Government Reform Subcommittee on National Security, Veterans Affairs and International Relations. His testimony was similar to the February 12, 2001, testimony before the Senate Budget Committee. While noting that serious problems persist within the Department, he testified that, on the whole, DoD managers react positively and generally do their best to correct the problems identified by the OIG, DoD, and that some progress is evident in all areas.

On March 29, 2001, the Deputy Inspector General testified at a joint hearing of the Senate Governmental Affairs Subcommittee on Oversight of Government Management and the House Government Reform Subcommittee on Civil Service and Agency Organization. The subject of the hearing was "The National Security Implications of the Human Capital Crisis." His testimony centered on several recent audit reports on Defense programs with workforce problems. A common theme among these reports is that workforce downsizing, without proportionate workload reductions or productivity increases, has created or exacerbated mission performance problems across a wide spectrum of DoD organizations and civilian personnel specialties. Workforce problems confronting the Department include determining the most efficient mix of outsourced versus in-house workload; determining appropriate workforce size and skills composition; authorizing and funding sufficient positions to match workload; recruiting and retaining capable personnel; providing effective training; and maintaining good morale.

INTELLIGENCE REVIEW

See the Classified Annex to this report for intelligence review activities during the period.

APPENDIX A*

REPORTS ISSUED BY CENTRAL DOD INTERNAL AUDIT ORGANIZATIONS

Excludes base level reports issued by the Air Force Audit Agency. Includes evaluation reports issued by the OIG, DoD.

Copies of reports may be obtained from the appropriate issuing office by calling:

OIG, DoD
(703) 604-8937

Army Audit Agency
(703) 681-9863

Naval Audit Service
(202) 433-5737

Air Force Audit Agency
(703) 696-8027

Summary of Number of Reports by Issue Area October 1, 2000 - March 31, 2001

	OIG, DoD	Military Depts.	Total
Acquisition Program	11	7	18
Construction and Installation Support	5	1	6
Contractor Oversight	11	6	17
Environment	4	4	8
Finance and Accounting	27	34	61
Health Care and Morale	3	12	15
Information Technology	15	5	20
Intelligence**	4	7	11
Logistics	5	20	25
Other	4	2	6
Total**	89	98	187

The OIG, DoD, also issued 4 reports on audit oversight reviews (D2001-6-001, D2001-6-002, D2001-6-003, and D2001-6-004).

* Fulfills requirements of 5 U.S.C., Appendix 3, Section 5(a)(6).

** For further information on intelligence-related reports, including those issued by other Defense agencies, refer to the classified annex to this report.

ACQUISITION PROGRAM

(Includes issues relating to acquisition management.)

IG, DoD

D-2001-012 Acquisition of the Armored Medical Evacuation Vehicle (11/22/00)

D-2001-032 Use of Exit Criteria for Major Defense Systems (1/10/01)

D-2001-036 Acquisition of the Combat Survivor Evader Locator (1/25/01)

D-2001-043 Management of National Guard Weapons of Mass Destruction-Civil Support Teams (1/31/01)

D-2001-047 Equipment Procurement for the National Guard and Reserve Forces (2/7/01)

D-2001-066 Acquisition of the Advanced Tank Armament System (2/28/01)

D-2001-076 Acquisition of General and Industrial Items (3/13/01)

D-2001-082 Management of the Commercial Operations and Support Savings Initiative Program (3/19/01)

D-2001-086 On-Board Jammers for the Integrated Defensive Electronic Countermeasures (3/20/01)

D-2001-089 Management Issues at the Joint Simulation System Program Office (3/30/01)

D-2001-093 Acquisition of the Battlefield Combat Identification System (3/30/01)

Army Audit Agency

AA01-023 Simulation Based Acquisition Program (11/8/00)

AA01-065 New Equipment Testing (12/18/00)

AA01-128 Integrated System Control (12/15/00)

AA01-133 Joint Contingency Force Advanced Warfighting Experiment (1/29/01)

AA01-221 225th Army Birthday/Spirit of America (3/26/01)

Naval Audit Service

N2001-0018 Total Ownership Cost-Reduction Plans (3/20/01)

Air Force Audit Agency

01064010 Memorandum Report, Airborne Laser Test Program Direct Labor Hour Charges (11/21/00)

CONSTRUCTION AND INSTALLATION SUPPORT

(Includes construction and all activities related to maintenance and support of installations.)

IG, DoD

D-2001-003 Bulk Fuel Storage and Delivery Systems Infrastructure Military Construction Requirements for Japan (10/13/00)

D-2001-006 Bulk Fuel Storage Requirements for Maintenance, Repair, and Environmental Projects at Fort Hood, Texas (10/23/00)

D-2001-027 Navy Management Controls Over General and Flag Officer Quarters Costs (12/26/00)

D-2001-040 Bulk Fuel Infrastructure Maintenance, Repair, and Environmental Project Review Process: Pacific (1/30/01)

D-2001-080 Government Performance and Results Act Goals: Disposal of Excess Real Property (3/15/01)

Naval Audit Service

N2001-0006 Military Construction, Navy Projects Proposed for Fiscal Year 2002 (12/18/00)

CONTRACTING OVERSIGHT

(Includes issues relating to contract administration and oversight, commercial activities, and product quality assurance.)

IG, DoD

D-2001-001 Contract Award for the Fluid Flow Restrictor Spare Part (10/3/00)

D-2001-023 Implementation of Most Efficient Organization for the Defense Finance and Accounting Service Commissary Vendor Payment Function (12/20/00)

D-2001-028 Compliance With Procurement Laws in Purchasing Free Weights and Other Strength Building Equipment (12/27/00)

D-2001-051 Use of Federal Acquisition Regulation Part 12 Contracts for Applied Research (2/15/01)

D-2001-054 Defense Logistics Agency Product Verification Program (2/21/01)

D-2001-061 Waivers of Requirement for Contractors to Provide Cost or Pricing Data (2/28/01)

D-2001-069 Pilot Program on Sales of Manufactured Articles and Services of Army Industrial Facilities (3/1/01)

D-2001-072 Industrial Prime Vendor Program at the Naval Aviation Depot – North Island (3/5/01)

D-2001-077 Buying Program of the Standard Automated Materiel Management System Automated Small Purchase System: Defense Supply Center Philadelphia (3/13/01)

D-2001-084 Service Contracts at the National Security Agency (CLASSIFIED) (3/22/01)

D-2001-090 Obligations and Duplicate Payments on Air Force Maintenance Contract FA2550-96-C-0003 (3/30/01)

Army Audit Agency

AA01-037 Contracts for Maintenance of Tactical Equipment in the Field (11/3/00)

AA01-052 Contracts for Maintenance of Tactical Equipment in the Field (11/9/00)

AA01-111 Contracts for Maintenance of Tactical Equipment in the Field (1/31/01)

AA01-159 Linen Services Contract (1/29/01)

AA01-169 Best Practices for Using Award Fees (2/20/01)

Air Force Audit Agency

00061024 Memorandum Report, Contract Warranty Data (12/14/00)

ENVIRONMENT

(Includes environmental issues related to cleanup, compliance, conservation, pollution prevention, technology, safety, and health.)

IG, DoD

D-2001-009 DoD Compliance With Hazardous Waste Laws in the U.S. European Command (11/14/00)

D-2001-010 The Navy Shipboard Pollution Control Equipment Program (11/14/00)

D-2001-025 Summary Report on DoD Hazardous Waste Disposal Costs (12/22/00)

D-2001-087 Defense Logistics Agency Wastewater Treatment Systems (3/26/01)

Army Audit Agency

AA01-001 Matrix Support Requirements for the Chemical Demilitarization Program (10/2/00)

Naval Audit Service

N2001-0019 Naval Wastewater Treatment Systems (3/27/01)

Air Force Audit Agency

00052012 Environmental Restoration Contingent Liabilities at Closed Installations (2/27/01)

00052018 Clean Water Act Reporting and Budgeting (3/5/01)

FINANCE AND ACCOUNTING

(Includes finance and accounting issues, including all issues relating to the Chief Financial Officers (CFO) Act.)

IG, DoD

D-2001-011 Prior Period Adjustment to Remove National Defense Property, Plant, and Equipment From the DoD Agency-Wide Balance Sheet (11/16/00)

D-2001-021 Government Performance and Results Act Reporting on Defense Working Capital Funds Net Operating Results (1/10/01)

D-2001-022 Inventory Revaluation for the Navy Working Capital Fund by the Naval Supply Systems Command (12/18/00)

D-2001-024 Performance Measures for Disbursing Stations (12/22/00)

D-2001-026 Accuracy of the Government-Owned Contractor-Occupied Real Property in the Military Departments' Real Property Databases (12/22/00)

D-2001-033 Government Performance and Results Act – Unfunded Depot Maintenance Requirements (1/12/01)

D-2001-039 Financial Reporting of Department 97-Funded Property, Plant, and Equipment (1/31/01)

D-2001-041 Journal Entries to Support Departmental Reporting for the Marine Corps (1/31/01)

D-2001-042 Accounting and Disclosing Intragovernmental Transactions on the DoD Agency-Wide Financial Statements (1/31/01)

D-2001-048 Financial Reporting for Other Defense Organizations at the Defense Agency Financial Services Accounting Office (2/9/01)

D-2001-049 Abnormal General Ledger Account Balances for Other Defense Organizations Reported by DFAS Cleveland Center (2/13/01)

D-2001-053 DoD Payments to the U.S. Treasury for Water and Sewer Services Provided by the District of Columbia (2/15/01)

D-2001-056 Inspector General, DoD, Oversight of the Naval Audit Service Audit of the FY 2000 Department of the Navy General Fund Financial Statements (2/21/01)

D-2001-057 Inspector General, DoD, Oversight of the Naval Audit Service Audit of the FY 2000 Department of the Navy Working Capital Fund Financial Statements (2/21/01)

D-2001-058 Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 2000 Air Force General Fund Financial Statements (2/21/01)

D-2001-060 Internal Controls and Compliance With Laws and Regulations for the FY 2000 Financial Statements for Other Defense Organizations-General Funds (2/28/01)

D-2001-062 Inspector General, DoD, Oversight of the Air Force Audit Agency Audit of the FY 2000 Air Force Working Capital Fund Financial Statements (2/28/01)

D-2001-063 Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 2000 Army Working Capital Fund Financial Statement Audit (2/28/01)

D-2001-064 Inspector General, DoD, Oversight of the Army Audit Agency Audit of the Army's General Fund Principal Financial Statements for Fiscal Year 2000 (2/28/01)

D-2001-067 Inspector General, DoD, Oversight of the Army Audit Agency Audit of the FY 2000 U.S. Army Corps of Engineers, Civil Works Program, Financial Statements (2/28/01)

D-2001-068 Inspector General, DoD, Oversight of the Audit of the FY 2000 Military Retirement Fund Financial Statements (2/28/01)

D-2001-070 Internal Controls and Compliance With Laws and Regulations for the DoD Agency-Wide Financial Statements for FY 2000 (2/28/01)

D-2001-071 Navy Financial Reporting of Government Materials Held by Commercial Shipyard Contractors (3/2/01)

D-2001-078 Inventory Valuation at the Defense Supply Center Columbus (3/14/01)

D-2001-079 Inventory Valuation at the Defense Supply Center Richmond (3/14/01)

D-2001-081 Financial Reporting at the Washington Headquarters Services (3/15/01)

D-2001-085 The 2000 DoD Financial Management Improvement Plan (3/19/01)

Army Audit Agency

AA01-039 Followup Issues--Army Working Capital Fund FY 99 Financial Statements (10/20/00)

AA01-053 Reliability, Maintainability and Supportability Efficiency (12/1/00)

AA01-055 Army Executive Dining Facility Fund Financial Statements (11/20/00)

AA01-083 Internal Controls Over Inventory (1/5/01)

AA01-087 One Semi-Automated Forces (12/1/00)

AA01-092 Secretary of Defense Mess Fund Financial Statements (11/20/00)

AA01-121 Financial Management of the Kinetic Energy Anti-Satellite Program (12/20/00)

AA01-131 Financial Management of the Chemical Demilitarization Program (1/4/01)

AA01-166 Army's General Fund Principal Financial Statements for Fiscal Year 2000--Financial Reporting of Military Pay and Benefits (1/31/01)

AA01-170 Army's General Fund Principal Financial Statements for Fiscal Year 2000- Summary Audit Report (2/7/01)

AA01-174 Army's General Fund Principal Financial Statements for Fiscal Year--2000 Controls Over the Financial Reporting of Construction in Progress Costs for the Army National Guard (2/26/01)

AA01-175 Army Working Capital Fund Principal Financial Statements for Fiscal Year 2000- Summary Audit Report (2/9/01)

AA01-187 Fiscal Year 2000 Financial Statements (2/14/01)

Naval Audit Service

N2001-0005 Proposed Fiscal Year 2000 Annual Statement of Assurance (11/14/00)

N2001-0010 Fiscal Year 2000 Naval Shipyard Financial Accounting Performed by Defense Finance and Accounting Service Norfolk (2/6/01)

N2001-0011 Department of the Navy Principal Statements for Fiscal Year 2000: Environmental Liabilities (2/6/01)

N2001-0012 Fiscal Year 2000 Department of the Navy General Fund Principal Statements (2/07/01)

N2001-0013 Fiscal Year 2000 Department of the Navy Working Capital Fund Principal Statements (2/7/01)

N2001-0015 Department of the Navy Working Capital Fund Accounts Receivable, Federal and Non-Federal for Fiscal Year 1999 (2/26/01)

N2001-0016 Department of the Navy Principal Statements for Fiscal Year 2000: Inventory and Related Property, Net (2/27/01)

N2001-0017 Fiscal Year 2000 Department of the Navy General Fund Principal Statements: Fund Balance with Treasury Suspense Account Reconciliations and Adjustments (3/20/01)

Air Force Audit Agency

00051012 Nonappropriated Fund Financial Analyst Program (2/26/01)

00052001 Real Property Maintenance Activities Accounting Practices (12/26/00)

00052015 Reimbursable Expenses at Two Closing and Realigning Bases (1/31/01)

00053002 Opinion on Fiscal Year 2000 Air Force Consolidated Financial Statements (3/1/01)

00053011 Revenue and Other Financing Sources - Fiscal Year 1999 Obligations (12/5/00)

00054008 Official Representation Funds (10/26/00)

00054012 Tri-Annual Review Process for Unliquidated Obligations (2/14/01)

00054020 Travel Pay Controls (12/6/00)

00068004 Opinion on Fiscal Year 2000 Air Force Working Capital Fund Financial Statements (3/1/01)

99053004 Managerial Cost Accounting - Fiscal Year 1999 Disbursements (12/11/00)

99053005 Accounting for Air Force Liabilities, Fiscal Year 1999 (10/27/00)

99054027 Review of Controls in the Command Online Accounting and Reporting System (11/1/00)

99054032 Interim Automated Travel System Post-Payment Review Process 1/18/01)

HEALTH CARE AND MORALE ISSUES

(Includes health care issues such as military treatment facilities and champus and morale issues such as commissaries, nonappropriated funds, human resource management, and compensation issues.)

IG, DoD

D-2001-005 Use of Unpaid Consultants by the DoD Exchange Services (10/16/00)

D-2001-037 Collection and Reporting of Patient Safety Data Within the Military Health System (1/29/01)

D-2001-059 Armed Services Blood Program Readiness (2/23/01)

Army Audit Agency

AA01-077 Morale, Welfare and Recreation Acquisition Practices (11/29/00)

AA01-108 Civilian Personnel Regionalization (2/12/01)

AA01-157 Recruiter Productivity (2/12/01)

AA01-178 The Army Lodging Success Program (2/26/01)

AA01-201 Nonappropriated Fund Payroll (3/9/01)

AA01-215 Medical Decision Support Systems, (3/15/01)

Naval Audit Service

N2001-0001 Naval Surface Reserve Training (10/6/00)

N2001-0003 Naval Reserve Recruiting Functions (10/30/00)

N2001-0007 Increasing Navy's Likelihood of Achieving Fiscal Year 2001 Recruiting Goals (12/18/00)

Air Force Audit Agency

00051016 Medical Training Infrastructure (10/23/00)

00051006 Slot Machine Program (1/12/01)

00054028 Memorandum Report, Essential Product Program (12/12/00)

INFORMATION TECHNOLOGY RESOURCES

(Includes automated systems; information technology resources; and command, control and communications (c³) systems.)

IG, DoD

D-2001-013 DoD Compliance With the Information Assurance Vulnerability Alert Policy (12/1/00)

D-2001-014 Development and Implementation of a Joint Ammunition System (12/6/00)

D-2001-015 Defense Environmental Security Corporate Information Management Program (12/7/00)

D-2001-016 Security Controls Over Contractor Support for Year 2000 Renovation (12/12/00)

D-2001-017 Unclassified but Sensitive Internet Protocol Router Network Security Policy (12/12/00)

D-2001-019 Program Management of the Defense Security Service Case Control Management System (12/15/00)

D-2001-029 General Controls Over the Electronic Document Access System (12/27/00)

D-2001-030 Oversight of Defense Finance and Accounting Service Corporate Database Development (12/28/00)

D-2001-034 Army Healthcare Enterprise Management System (1/16/01)

D-2001-038 Allegations Relating to the Procurement of a Report Module for the Composite Health Care System II (1/29/01)

D-2001-044 Accreditation Policies and Information Technology Controls at the Defense Enterprise Computing Center Mechanicsburg (FOR OFFICIAL USE ONLY) (2/9/01)

D-2001-046 Information Assurance at Central Design Activities(2/7/01)

D-2001-052 Controls Over the Defense Joint Military Pay System (FOR OFFICIAL USE ONLY) (2/15/01)

D-2001-055 General Controls for the Defense Civilian Pay System (FOR OFFICIAL USE ONLY) (2/21/01)

D-2001-075 Standard Procurement System Use and User Satisfaction (3/13/01)

Air Force Audit Agency

00066005 Memorandum Report, Web Page Management in the Air National Guard (1/23/01)

01066011 Followup Memorandum Report, Information Assurance - Implementing Controls Over Known Vulnerabilities in Air Force Space Command Computers (1/12/01)

99058021 Cellular Telephone Management (10/25/00)

99066038 Web Page Management (FOR OFFICIAL USE ONLY) (11/8/00)

99066041 Controls Over Air Force Composite Health Care Systems (12/13/00)

INTELLIGENCE

(Includes intelligence and security matters.)

IG, DoD

D-2001-007 Foreign National Security Controls at DoD Research Laboratories (10/27/00)

D-2001-008 Resources of DoD Adjudication Facilities (10/30/00)

D-2001-065 DoD Adjudication of Contractor Security Clearances Granted by the Defense Security Service (2/28/01)

D-2001-084 Service Contracts at the National Security Agency (CLASSIFIED) (3/22/01)

Naval Audit Service

N2001-0004 Program C (CLASSIFIED) (11/16/00)

Army Audit Agency

AA01-002 Secure Environment Contracting (10/25/00)

AA01-066 Secure Environment Contracting (12/7/00)

AA01-165 Army Foreign Language Program-- Outsourcing (1/31/01)

Air Force Audit Agency

00058005 Air Force Intelligence Production Process (1/30/01)

00058012 Cryptologic Equipment Requirements and Financial Management (12/29/00)

01058006 Intelligence Contingency Funds - Fiscal Year 2000 (2/9/01)

(See classified annex to this report for additional information.)

LOGISTICS

(Includes issues relating to supply systems; transportation including fuels; maintenance of weapon systems; foreign military sales; foreign military financing; and international military education and training.)

IG, DoD

D-2001-002 Defense Logistics Agency Customer Returns Improvement Initiative Program (10/12/00)

D-2001-004 Disposal of Excess Government-Owned Property in the Possession of Contractors (10/13/00)

D-2001-031 DoD Pilot Programs for Shipment of Personal Property – DoD Baseline Cost Methodology (12/29/00)

D-2001-035 Management of Potentially Inactive Items at the Defense Logistics Agency (1/24/01)

D-2001-045 Government Performance and Results Act Goals: Tank Miles (2/7/01)

Army Audit Agency

AA01-025 Management of Ammunition in Support of Army Pre-Positioned Sets in Europe (FOR OFFICIAL USE ONLY) (10/23/00)

AA01-036 Sustainment Systems Technical Support (11/3/00)

AA01-047 Management of Ammunition in Support of Army Pre-Positioned Sets (11/7/00)

AA01-048 Ammunition Supply Point (11/9/00)

AA01-080 Use of Rail Cars for Transporting Equipment to Combat Training Centers (11/30/00)

AA01-093 Management of Training Ammunition (12/7/00)

AA01-110 Institutional Training of Reserve Component Soldiers to Meet Qualification Goals (12/27/00)

AA01-129 Reusing and Disposing of Missile Munitions Phase I (1/22/01)

Naval Audit Service

N2001-0002 Nine-Week Maintenance Availability Policy for Surface Ships in the Pacific Fleet (10/10/00)

N2001-0008 Audit Followup on Management, Control, and Accounting Procedures for Sponsor Material at Naval Sea Systems Command Warfare Centers (1/10/01)

N2001-0009 General Purpose and Research Vessel Requirements (1/31/01)

Air Force Audit Agency

00058001 Maintenance of Time-Phased Force and Deployment Data Files (11/23/00)

00058002 Air National Guard Flying Hour Program (11/13/00)

00058007 Medical Unit Readiness Reporting (12/21/00)

99062001 Foreign Military Sales Travel Requirements (1/29/01)

00061006 F117-PW-100 Spare Engine Requirements (2/9/01)

00061020 Followup Audit, Asset Shipments Outside of Supply Control (2/9/01)

00062005 Flying Hour Projections Used in Computing Spares Requirements (1/16/01)

99061010 Spare Parts Data System Inventory Accuracy (3/28/01)

99062007 Use and Control of Military Interdepartmental Purchase Requests (12/11/00)

OTHER

IG, DoD

D-2001-018 Management and Oversight of the DoD Weather Program (12/14/00)

D-2001-074 Cooperative Threat Reduction Program (3/9/01)

D-2001-088 DoD Involvement in the Review and Revision of the Commerce Control List and the U.S. Munitions List (3/23/01)

D-2001-092 Interagency Review of the Commerce Control List and the U.S. Munitions List (3/23/01)

Army Audit Agency

AA01-171 Trainees, Transients, Holdeses, and Students Account (2/23/01)

Naval Audit Service

N2001-0014 Quality Assurance Review of the Local Audit Function at the Naval Special Warfare Command (2/26/01)

AUDIT OVERSIGHT REVIEWS

IG, DoD

D-2001-6-001 Report on Quality Control Review of Arthur Andersen, LLP, for OMB Circular No. A-133 Audit Report of the Henry M. Jackson Foundation for the Advancement of Military Medicine, Fiscal Year Ended September 30, 1998 (2/2/01)

D-2001-6-002 Report on Quality Control Review of Grant Thornton, LLP, for Office of Management and Budget Circular A-133 Audit Report of Concurrent Technologies Corporation Fiscal Year Ended June 30, 1998 (2/23/01)

D-2001-6-003 Defense Contract Audit Agency's Role in Integrated Product Teams (3/23/01)

D-2001-6-004 Report on Quality Control Review of PricewaterhouseCoopers, LLP and Defense Contract Audit Agency for Office of Management and Budget Circular A-133 Audit Report of Massachusetts Institute of Technology, Fiscal Year Ended June 30, 1999 (3/22/01)

APPENDIX B*
INSPECTOR GENERAL, DoD, AUDIT REPORTS ISSUED CONTAINING
QUANTIFIABLE POTENTIAL MONETARY BENEFITS

Audit Reports Issued	Potential Monetary Benefits	
	Disallowed Costs¹	Funds Put to Better Use
D-2001-001 Contract Award for the Fluid Flow Restrictor Spare Part (10/3/00)	N/A	\$805,000
D-2001-012 Acquisition of the Armored Medical Evacuation Vehicle (11/22/00)	N/A	6,311,000
D-2001-014 Development and Implementation of a Joint Ammunition System (12/6/00)	N/A	70,700,000
D-2001-015 Defense Environmental Security Corporate Information Management Program (12/7/00)	N/A	57,700,000
D-2001-035 Management of Potentially Inactive Items at the Defense Logistics Agency (1/24/01)	N/A	17,200,000
D-2001-066 Acquisition of the Advanced Tank Armament System (2/28/01)	N/A	62,900,000
D-2001-072 Industrial Prime Vendor Program at the Naval Aviation Depot - North Island (3/5/01)	N/A	572,000
D-2001-075 Standard Procurement System Use and User Satisfaction (3/13/01)	N/A	2,100,000
D-2001-077 Buying Program of the Standard Automated Materiel Management System Automated Small Purchase System: Defense Supply Center Philadelphia (3/13/01)	N/A	7,200,000
D-2001-078 Inventory Valuation at the Defense Supply Center Columbus (3/14/01)	N/A	2,000,000
D-2001-079 Inventory Valuation at the Defense Supply Center Richmond (3/14/01)	N/A	9,500,000
Totals	0	\$236,988,000
*Fulfills the requirement of 5 U.S.C., Appendix 3, Section 5(a)(6)		
¹ There were no OIG audit reports during the period involving disallowed costs.		

APPENDIX C*
FOLLOWUP ACTIVITIES

DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE¹ (\$ in thousands)		
Status	Number	Funds Put to Better Use
A. For which no management decision had been made by the beginning of the reporting period.	31	\$367,300
B. Which were issued during the reporting period.	88	236,988
Subtotals (A+B)	119	604,288
C. For which a management decision was made during the reporting period.	79	520,016
(i) dollar value of recommendations that were agreed to by management		
- based on proposed management action		15,500
- based on proposed legislative action		0
(ii) dollar value of recommendations that were not agreed to by management ²		504,516
D. For which no management decision has been made by the end of the reporting period.	40	84,272
Reports for which no management decision was made within 6 months of issue (as of March 31, 2001).	0	0
¹ There were no OIG audit reports during the period involving questioned costs. ² On four audit reports with a total of potential funds put to better use of \$433.5 million, management has agreed to take the recommended actions, but the amount of agreed monetary benefits cannot be determined until those actions are completed.		

*Fulfills requirements of 5 U.S.C., Appendix 3, Section 5(a)(8)(9) and Section 5(b)(2)(3).

STATUS OF ACTION ON CENTRAL INTERNAL AUDITS¹ (\$ in thousands)		
Status of Action	Number of Reports	Funds Put to Better Use
IG, DoD		
Action in Progress - Beginning of Period	304	\$160,986
Action Initiated - During Period	79	15,500
Action Completed - During Period	77	433,956
Action in Progress - End of Period ²	306	156,730
Military Departments		
Action in Progress - Beginning of Period ³	429	\$4,724,489
Action Initiated - During Period	108	1,137,831
Action Completed - During Period	124	898,611
Action in Progress - End of Period	413	3,014,600
¹ There were no audit reports during the period involving questioned costs. ² On certain reports (primarily from prior periods) with audit estimated monetary benefits of \$800 million, we agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing. ³ Reflects downward adjustment of \$87.3 million from Navy total for amount agreed-to in prior period.		

APPENDIX D
CONTRACT AUDIT REPORTS ISSUED*
(\$ in millions)

Type of Audit	Reports Issued	Examined	Audit Exceptions	Funds Put to Better Use ¹
Incurring Costs ²	12,233	\$41,948.7	\$457.6	\$126.3
Forward Pricing Proposals	3,895	54,613.3	--	1,378.7
Cost Accounting Standards	1,165	90.0	15.2	--
Defective Pricing ³	251	--	13.0	--
Other ⁴	5	--	--	--
Totals	17,549	\$96.652.0	\$485.8	\$1,505.0

¹Potential cost avoidance.

²Incurring cost funds put to better use are from the cost avoidance recommended in economy and efficiency audits of contractor operations.

³Defective pricing dollars examined are not reported because they are considered a duplication of forward pricing dollars reported as examined.

⁴Relates to suspected irregular conduct cases.

*Because of limited time between availability of management information system data and legislative reporting requirements, there is minimal opportunity for the DCAA to verify the accuracy of reported data. Accordingly, submitted data is subject to change based on subsequent DCAA authentication.

Waivers of Advisory and Assistance Service Contracts

A review is made of each waiver granted by the Department for advisory and assistance services contracts related to testing support. This review is required by Section 802, Defense Authorization Act for Fiscal Year 1990.

The Department made no waivers during the period and therefore, no reviews were made by the OIG.

Mission Statement

The Department of Defense Inspector General promotes national security and integrity and credibility in Government by conducting objective and independent audits, investigations, evaluations, and other activities to prevent, detect, and help correct problems in DoD programs and to identify opportunities for improving efficiency and effectiveness.

